



REPORT

REPORT TO: Mayor Bonnette and Members of Council

REPORT FROM: Jinsun Kim, Manager of Finance

DATE: December 14, 2020

REPORT NO.: CORPSERV-2020-0031

RE: Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2020

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0031 regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2020 be received for information;

BACKGROUND:

The Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds report (the Reserve and Reserve Fund report) outlines the status of the various funds held by the Town of Halton Hills as at September 30, 2020.

COMMENTS:

The attached schedules A to D report a summary of the reserves, discretionary reserve funds, obligatory reserve funds and trust funds held by the Town. The opening balances as at January 1, 2020, the activity from January to September 2020, un-booked commitments against the funds, and any inter-fund borrowing are reported for each separate fund.

Schedule A represents a summary of the detailed Schedules B to D. Schedule B lists the Town's reserves and discretionary reserve funds, Schedule C lists the obligatory reserve funds, and Schedule D lists the trust funds that the Town administers.

Reserves, Reserve Funds, and Trust Funds

The opening balance column reflects the balance of the reserves, discretionary reserve funds, obligatory reserve funds and trusts that were reported in the 2019 published financial statements. It does not include any unrecorded amounts or inter-fund loans.

The activity from January to September 2020 includes the interest that has been earned on the reserves, reserve funds, and trust funds during the period and movements in and out of the funds.

In accordance with Council approval of report CORPSERV-2018-0045, the Treasurer can authorize the reallocation of funds between reserves to meet the needs identified in the Long-range Financial Plan (LRFP) and the Town's capital program. There has been no reallocation of funds between reserves as of September 2020. Any reallocation needs will be determined as part of the year-end process and will be reflected in the Reserve and Reserve Fund report at year-end.

The Town's reserves and discretionary reserve funds balances at year-end as estimated on September 30, 2020 are higher than the 2019 LRFP assumptions for that same time period due primarily to year-end operating surpluses transferred to the reserves and the lower level of DC interfund borrowing projected at this time.

Revised Capital Financing

As part of the capital project review process (CORPSERV-2020-0041 re: Q3 Capital Status Report), staff undertook a comprehensive review of the open capital projects, with an aim to assess capital spending and funding levels and to best utilize the external funding available. Based on this review, the project financing has been adjusted to increase the external funding (i.e. Gas Tax, OMCC, developer contributions) by \$1.0 million and reduce the reserves and DC funding by the same amount. The details are included in Schedule E.

Development Charges and Inter-fund Borrowing

The governing legislation that permits a municipality to borrow for capital projects is the Municipal Act. Specific restrictions with respect to inter-fund borrowing for growth-related capital projects, is set out in section 36 of the Development Charges Act (DCA), 1997. Section 36 states that a municipality may borrow money from a reserve fund.

Inter-fund borrowing is required when the Town needs to pay for growth-related capital works in the short-term. Borrowing from a reserve or reserve fund may occur only when an analysis of the reserves has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve. Repayment, including interest, relies on cash inflows from future DCs, which are dependent upon the realization of projected growth.

The intent of using DC funds to pay for growth-related projects is to ensure that the burden is on the developer and not the taxpayer. In 2019, the Province introduced changes to the DCA and parkland dedication under the *Planning Act* (PA) along with the Community Benefits Charge (CBC) authority by Bill 108 (the More Homes, More Choice Act). All final legislative requirements to amend the DCA and the PA came into effect in

September, 2020. The Town will undertake the DC study and the CBC strategy in 2021 to update the DC by-law and to implement the CBC by-law. Staff will update Council on the related workplan in 2021. The results of these studies, including inter-fund borrowing and repayment, will be incorporated into the LRFP and reported to Council.

As of January 1, 2020, the Town has borrowed \$19.2 million from reserves and operating funds to interim finance growth-related capital projects, where the collection of development charges is not sufficient to meet funding requirements:

DC Reserve Funds	Borrowed From	Interfund Loan (Jan.1, 2020)
Transportation Services	New Capital Rsv	\$ 573,991
Storm Water Mgt. Services	New Capital Rsv	795,183
Municipal Parking Services	New Capital Rsv	285,300
Fire Protection Services	New Capital Rsv	969,159
Fire Protection Services	Fire Services Rsv	506,350
Recreation & Parks Services	New Capital Rsv	14,378,815
Library Services	New Capital Rsv	893,636
Administration Services	New Capital Rsv	767,172
Total		<u>\$ 19,169,607</u>

It is estimated that an additional \$6.9 million of interfund loans will be required by the end of 2020, which is lower than the projection made in the 2019 LRFP. The final interfund loan requirement will be determined based on actual DC collections as part of the year-end process and will be reported in the Reserve and Reserve Fund report at year-end.

Financial Indicators

Based on the above, the following are the financial indicators related to 2020 in comparison to the measures projected in the 2019 LRFP. Overall, the estimated Town's financial sustainability indicator (i.e. total reserves, before interfund loans, as a % of municipal expenditures) is 80.5% and places the Town well within the low risk category for the Provincial standard, which calls for a ratio above 20%. With respect to the internal indicators, the measures are higher than projected in the LRFP, due mainly to higher forecasts for reserve balances and lower expenditure levels.

Internal Indicators	Actual		2020 Estimated		Sensitivity Target	Estimated Y-E Variance fr LRFP	
	2018	2019	As per LRFP	As at Sep. 30		\$	%
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	47.1%	45.6%	28.6%	44.7%	40%	n/a	16.1%
Cash Reserves per Capita	\$ 580	\$ 585	\$ 411	\$ 569	\$ 559	\$ 158	38.6%
Development Charge Collections (\$000's)	\$ 2,185	\$ 2,397	\$ 3,828	\$ 2,662	n/a	\$ (1,166)	-30.5%
Development Charge Cash Balance (\$000's)	\$ 84	\$ 14	\$ 326	\$ 17	n/a	\$ (309)	-94.7%
Interfund Loan (cumulative \$000's)	\$ 14,274	\$ 19,170	\$ 25,919	\$ 23,952	n/a	\$ (1,968)	-7.6%
Cash Reserves at Year-end (\$000's)	\$ 35,472	\$ 35,802	\$ 25,910	\$ 34,795	n/a	\$ 8,884	34.3%
Provincial Indicators							
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	67.7%	72.4%	57.8%	80.5%	20% +	n/a	22.7%

These indicators will continue to be closely monitored for the remainder of 2020 and will be reported to Council as part of the 2020 year-end process.

RELATIONSHIP TO STRATEGIC PLAN:

This report supports the Strategic Plan priority with regards to the effective, efficient and economical delivery of the Town's existing services.

FINANCIAL IMPACT:

Section 36 of the Development Charges Act, 1997 allows a municipality to borrow money from reserve funds to temporarily cover any gaps resulting from delays in the timing of receipt of development charge revenue.

Overall, the Town's financial sustainability, as represented by total reserves as a percentage of expenditures, is considered healthy based on both Provincial standards and the Town's internal thresholds due to the higher level of reserve balances and well managed operating expenditures. Staff will continue to closely monitor the status of anticipated development and make adjustments to the LRFP as appropriate.

CONSULTATION:

The report was compiled based on data held within the financial accounting system.

PUBLIC ENGAGEMENT:

There is no public engagement impact for this report.

SUSTAINABILITY IMPLICATIONS:

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

COMMUNICATIONS:

There is no communications impact for this report.

CONCLUSION:

The information provided in this report is to inform Council of the status of the reserves, reserve funds, deferred revenue and trust funds held by the Town of Halton Hills as at September 30, 2020.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

Moya Jane Leighton, Town Treasurer and Director of Accounting

A handwritten signature in black ink, appearing to read "C. Mills".

Chris Mills, Acting Chief Administrative Officer